

EXHIBIT 54

**The move to provide
government-wide
reporting**

Historically, efforts by state and local governments to ensure and demonstrate legal compliance have not always met with success. At the start of the twentieth century, for example, a number of state and local governments were beset by charges of financial corruption and mismanagement. Critics of the period charged that financial misfeasance and malfeasance were abetted by poor accounting and financial reporting practices. In particular, critics argued that state and local governments needed to segregate their financial resources to ensure that monies were spent only for approved purposes. In response to these criticisms, many governments began to establish separate cash accounts to manage resources dedicated for various purposes.

Of course, improvements in cash management techniques have made multiple cash accounts a thing of the past for most state and local governments. Nonetheless, governments have continued to find value in *accounting* separately for financial resources that are restricted or otherwise earmarked for special purposes. In this manner, the separate cash accounts of the early twentieth century evolved into the funds still used today by state and local governments to ensure and demonstrate legal compliance.

The Governmental Accounting Standards Board (GASB) has identified *accountability* as the paramount objective of financial reporting.¹ The GASB has further identified two essential components of accountability: *fiscal* accountability and *operational* accountability. *Fiscal* accountability is "the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short term (usually one budgetary cycle or one year)."² *Operational* accountability refers to "governments' responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future."³

Fund accounting, specifically designed to help governments ensure and demonstrate legal compliance, is naturally well-suited to achieving the goal of fiscal accountability. Over the years, however, many observers questioned whether fund accounting was equally well-suited to the task of demonstrating operational accountability. They argued that a broader, government-wide focus was needed to adequately assess operational accountability. These concerns motivated the GASB to spend more than a decade studying how the structure of governmental financial reporting (the governmental financial reporting model) could be modified to improve operational accountability without sacrificing fiscal accountability.

The GASB concluded that fund accounting continues to play an important role in helping governments achieve fiscal accountability, and that it should be retained. The board also concluded that government-wide financial statements are needed as well to allow users of financial reports to assess a government's operational accountability. The GASB does not view fund-based financial reporting and government-wide financial reporting

¹ GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, paragraph 76.

² GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 203.

³ GASB Statement No. 34, paragraph 203.